Washoe County HOME Consortium
City of Reno • City of Sparks • Washoe County

MEMORANDUM

Date: **December 11, 2018**

To: **Technical Review Committee, Washoe County HOME Consortium**

From: **Neighborhood Services Department, City of Reno**

Subject: **Agenda #5: PRESENTATION, DISCUSSION AND REVIEW OF POSSIBLE CHANGES TO THE FUNDING PRIORITIES OF THE WASHOE COUNTY HOME CONSORTIUM AND PRESENTATION OF THE REGIONAL STRATEGY FOR HOUSING AFFORDABILITY AND RECOMMENDATIONS BY ENTERPRISE COMMUNITY PARTNERS** (For Possible Action)

Background

At the August 14, 2018, TRC meeting, staff proposed several updates to the *WCHC Funding Priorities* for review and possible adoption at a later date. At the meeting, there was some discussion and a request for more research about potentially adding the term "average rent" to the first Level I Priority, and more information on this topic is provided on the next page. There was also a suggestion by staff to add another priority that would have a goal of providing 20 percent of the HOME units to special needs households. After further review, however, staff is no longer pursuing this addition since there is already an existing Level I priority that addresses special needs households, and because there was no agreement on the percentage that should be dedicated to this household type. Lastly, a presentation was made by Lynne Barker, Reno Sustainability Manager, regarding the benefits of green building for affordable housing, yet several comments were made that TRC members were still concerned about the costs and regulatory burdens of green certification and were not ready to make this a priority at this time.

In addition, it was noted that Truckee Meadows Healthy Communities, in partnership with the Truckee Meadows Regional Planning Association and Enterprise Community Partners Inc. are in the process of creating a regional housing affordability plan, and it was suggested that the TRC wait to see the results of that plan before adopting any changes to the *WCHC Funding Priorities*. Another purpose of this item today, therefore, is to review the strategies and other results of the *Regional Strategy for Housing Affordability*, with the possibility that portions of this plan can be incorporated into the new *Funding Priorities*.

The *Funding Priorities* are guidelines, not requirements, and their purpose is to provide direction to housing providers as well as to guide the TRC's decision-making process when there are competing applications for funding. Staff is seeking direction regarding the possible changes that are outlined in this report (in addition to any that are made at the December 11 meeting), but staff is suggesting that the TRC wait until January to make a final vote. The *WCHC Funding Priorities* do not have to be reviewed by the Directors, but the TRC can ask for their input if desired. Since the 2019 HOME loan application has already been released with the existing priorities, any changes to the *Funding Priorities* will not go into effect until the next funding cycle in 2020.

Staff Recommendations

Staff is proposing two changes to the *WCHC Funding Priorities*, listed below:

1. **Current Level I Priority:** Project provides 100% of rent restricted units at or below 40% of the AMI for family units; at or below 45% of AMI for senior projects.

Replace with: The average rent for all HOME units is at or below 40% of the AMI for family units, and at or below 45% of AMI for senior projects.

Rationale: The purpose of the current priority is to invest in projects in which ALL of the HOME units will be affordable to extremely low income households, at or below 45 percent of the AMI. At the previous August 14 TRC meeting, staff suggested keeping this priority but to simplify the language to remove any difference between family units and senior projects. There were several comments, however, that the TRC may want to allow at least a few units to be available to a range slightly higher income range, rather than all extremely low income. There was also no consensus regarding the language proposed by staff to remove the identification of family and senior projects.

For the proposed change in this report, the substitution of "average rent" to the existing Priority allows projects to have more flexibility to charge some units with slightly higher rent, if the need is there, while also maintaining the priority to set-aside extremely low income units. In order to receive the property tax exemption, staff encourages projects with HOME units to be affordable to very low income households below 50 percent of the AMI. In particular, when LIHTC financing and HOME funds are combined, staff believes that the HOME units should have more restrictive rents than the tax credit units.

2. Staff is recommending the deletion of the reference to the *Housing For All* 10 year plan, since it is out of date.

Presentation of the Regional Strategy for Affordable Housing and Recommendations by Enterprise Community Partners

Truckee Meadows Healthy Communities (TMHC), Enterprise Community Partners Inc. (Enterprise) and the Truckee Meadows Regional Planning Agency (TMRPA) began community conversations about affordable housing in November of 2017. Phase I began with gathering and analyzing data about the current housing market and affordability trends in the region. Phase II categorized the region by submarket types with similar market conditions to create neighborhood profiles, which would allow for more targeted proposals of affordable housing options. Phase III

includes the development of the Plan and strategies for affordable housing, and public outreach. Enterprise conducted numerous stakeholder meetings to identify and refine the strategies contained within the Plan as well.
Enterprise Community Partners will have more information to present at the December 11 TRC meeting. A few takeaways from the analysis of of the low-income housing market by Enterprise are listed here:

- 36 percent of all households in our region are cost burdened
  - The increase in housing price is outpacing the increase in income
    - Our region is forecasted to grow by 128,000 people in the next 20 years
      - The region lacks overall supply of housing units and diversity of housing types
        - There is a lack of housing that is affordable across all income levels
          - Truckee Meadows will need roughly 50,600 new housing units by 2035.

Based upon the conditions of the low-income housing market, the results of the stakeholder meetings contained within the *Regional Strategy for Housing Affordability*, Enterprise Community Partners and WCHC staff are recommending the following additional updates to the *WCHC Funding Priorities*:

1. **Current Level II Priority:** Project addresses one or more of the objectives of the Consolidated Plan.

Replace with: Project addresses one or more of the objectives of the *Consolidated Plan* and the *Regional Strategy for Housing Affordability*.

Rationale: Staff also suggests making this a Level I Priority, instead of Level II. Projects should, at a minimum, meet the objectives of plans that have been adopted to meet the affordable housing needs in the community.

2. **Consider the following as a new Level II Priority:** Project preserves, maintains and restores existing affordable housing units that have expiring tax credit or HOME affordability restrictions.

Rationale: The expiration of low-income housing units is a significant concern for existing tax credit and HOME properties, as noted and discussed in a separate item on this agenda.

Recommendation
Staff recommends that the TRC provide direction to staff on these and other potential changes, with the goal of adopting a final version of the *WCHC Funding Priorities* at the next TRC meeting in January 2019. The new priorities would then go into effect during next year's funding round.

MEMORANDUM

Date: **December 11, 2018**

To: **Technical Review Committee, Washoe County HOME Consortium**

From: **Neighborhood Services Department, City of Reno**

Subject: **Agenda #6: PRESENTATION, DISCUSSION AND POSSIBLE APPROVAL OF CHANGES TO THE POLICIES AND PROCEDURES OF THE WASHOE COUNTY HOME CONSORTIUM FOR THE USE OF TRUST FUNDS FOR PROGRAMS AND PROJECTS, AND RECOMMENDATION BY STAFF REGARDING POSSIBLE CHANGES TO OTHER OFFICIAL DOCUMENTS OF THE CONSORTIUM TO COMPLY WITH THE REVISIONS TO THE PROCEDURES** (For Possible Action)

Background:

At the August 14, 2018, meeting of the Technical Review Committee (TRC), staff presented several possible changes to the *Standard Operating Policies and Procedures* (SOPP) regarding the use of Low Income Housing Trust Funds (LIHTF) for tenant-based rental assistance (TBRA) programs. This item was originally brought to the TRC due to concerns by staff that the allocation of LIHTF funds to TBRA programs did not have any oversight by the TRC or the Directors of the Consortium. The City of Reno currently operates two TBRA programs and the Volunteers of America administers one more. All three programs provide direct assistance to households that are homeless, in contrast to other funding that is awarded for new construction and rehabilitation projects.

At the August TRC meeting, there were questions and discussions surrounding how rents are determined for TBRA units, how clients are referred to the program, and who administers each program. In general, the TRC expressed support for changes to the Procedures that would formalize the process of allocating trust funds to tenant-based programs by inserting provisions that would require applications and presentations to the TRC for TBRA programs, and requiring updates to the TRC on the performance and overall administration of them.

The following list is provided to clarify a few items and questions that were discussed at the previous meeting, but it is not intended to be a complete summarization of the meeting:

1. Staff prefers to use LIHTF funds for tenant-based programs because the State regulations and reporting requirements are more flexible than the Federal HOME requirements. For example, HOME limits the amount of assistance that can be given to each recipient, while LIHTF does not, which allows the Consortium to support clients that may have no income.
2. The City of Reno has a contract for services with the Reno Housing Authority in which the RHA only delivers monthly checks to pay for rental assistance for clients of the *Rapid Rehousing* program.
3. Clients of Reno's programs may use the assistance at any private housing unit in Washoe County.

4. Rents for all TBRA units are determined by the private market, but may not exceed the fair market value as determined by HUD based on household size.
5. All clients selected for the program are homeless or staying at the Community Assistance Center homeless shelter.
6. Staff is recommending that the Volunteers of America and the City of Reno (or any other agency seeking funding) submit applications and request the funding at the appropriate funding cycle as stand-alone programs.

In addition, staff from the City of Reno Housing Division physically inspects the tenant-based units according to the Housing Quality Standards (HQS), which are HUD's minimum standards for tenant-based programs. The VOA inspects their own units and provides Reno with the HQS certification for each unit. The State of Nevada audits the tenant-based programs every year, and in the most recent audit in June 2018, there were no reported findings or areas of concern. The VOA is also responsible for providing documentation to the Lead Agency that the rents do not exceed the fair market value.

<u>October 13 Directors Meeting</u>

Staff also requested input from the Directors of the Consortium at a meeting on October 13, 2018. The Directors include the City Managers of Reno and Sparks, and the Washoe County manager. A summary of the August TRC meeting regarding this topic was provided to the Directors. Among the Directors, there was some concern that the Consortium was not following its own procedures for TBRA programs, as well as a concern regarding how existing programs are operating despite no review or recommendation by the Directors. There was also a question as to whether or not the Regional Planning Governing Board is the appropriate body to ratify these programs anymore due to the creation of the Community Homelessness Advisory Board, but it was agreed that this topic could be discussed at a later date.

There was support voiced for removing the 20 percent cap on each year's allocation of TBRA in order to allow more flexibility to fund either programs or projects, based upon the quality of the applications that are received. There was also support for a provision that requires agencies seeking TBRA funding to apply for funds from the Consortium as a stand-alone application at each funding cycle where funding is sought. The Directors made a motion that the TRC review, discuss and possibly revise the *Standard Operating Policies and Procedures* of the Washoe County HOME Consortium to address and/or include items 1 through 3 listed below, and to forward a revised draft of the Procedures to the Directors for their review and possible adoption:

1. Agencies seeking funding for TBRA programs shall request funding every year during each funding cycle for the selection of new projects.
2. WCHC staff shall report to the TRC on the performance and overall administration of the programs at each funding cycle in which TBRA programs are applying.
3. Remove the 20 percent cap on TBRA funding.

<u>Recommendation</u>

Staff recommends that the TRC move to approve the draft *Standard Operating Policies and Procedures* (v 12-2018) located in the attachments, which includes the list of changes that the Directors of the Consortium asked to be reviewed, discussed and revised by the TRC. For your convenience, the changes are shown in redlines on pages 22-23 of the SOPP, in the attachments. Staff will prepare clean copies of the SOPP after the meeting.

Changes to other official WCHC documents

Staff is not recommending any revisions to the Priorities of the Consortium (please see the next item on the agenda), nor to any other WCHC document as a result of these possible changes to the SOPP. TBRA applicants should still be able to address one or more of the existing Priorities of the Consortium, in exactly the same manner as any other new construction and rehabilitation project. Although small improvements can be made in the future to the application form for affordable housing funding, agencies seeking TBRA funding can still provide a complete and accurate description of the program in the project narrative portion of the materials in the existing application.

In addition, at the time presentations for funding are made at the public hearings, a detailed staff report will be provided to the TRC and the Directors that summarizes and provides analysis of each request. The next item on the agenda addresses several small changes to the *Funding Priorities.* If the TRC deems it necessary to adopt a new priority or a new system to judge TBRA programs separately from new construction or rehabilitation projects, they may do so with the next agenda item.

Next Step

If approved, staff will forward the revised version of the Policies and Procedures to the Directors of the WCHC for their review and possible adoption on December 13, 2018.

MEMORANDUM

Date: **December 11, 2018**

To: **Technical Review Committee, Washoe County HOME Consortium**

From: **Neighborhood Services Department, City of Reno**

Subject: **Agenda #7: PRESENTATION, REVIEW AND DISCUSSION OF THE REQUIRED AFFORDABILITY PERIOD OF TAX CREDIT UNITS AND HOME UNITS** (For Possible Action)

Background:

This item was brought to the attention of the TRC on August 14. Since that meeting, Reno staff has had ongoing discussions with the Nevada Housing Division regarding the status of Low Income Housing Tax Credit properties with expiring affordability periods. This report fills in more details from the previous report and updates the TRC on the status of these discussions, as well as provides some direction to the TRC about how the Consortium can help support, preserve and rehabilitate existing tax credit projects that will be expiring in the next several years.

The Nevada Housing Division (NHD) administers and monitors the low income Housing Tax Credit (LIHTC) program for the benefit of families with low incomes, and it is the largest generator of affordable housing in the state. The HOME program is a federal low income program that is administered by the Washoe County HOME Consortium (WCHC), and Reno is the Lead Agency. Financing new affordable housing construction requires a layer-cake of numerous sources of financing and assistance, which may include loans, bonds, tax credit investment, donated land and even volunteer resources.

When LIHTC financing and HOME funding are combined within the same project, the LIHTC funding normally provides the largest amount affordable financing to the table and thus most of the units must follow the Tax Credit rules of the State and serve households earning at or below 60 percent of the area median income. The HOME financing, on the other hand, is normally used to subsidize and create a smaller number of units that are affordable to extremely low income families at 30-50 percent of area median income.

- In Washoe County, there are 6,479 existing Tax Credit units.
- By contrast, there are only 634 HOME units.
- There are 1,301 units with other types of public housing assistance, in addition to the families that receive Section 8 assistance.

LIHTC affordability period

LIHTC units are required to have a minimum affordability period of 30 years before the units may be priced market-rate. Table 1 on the next page lists four different Tax Credit projects (totaling 236 units) in Washoe County that will naturally expire by the year 2025, meaning that the projects will complete the terms of their original agreements for affordable housing. By contrast, only 18 HOME units will naturally expire by the year 2025 (see the *Inventory of HOME Units* attachment).

Table 1. Nevada Tax Credit Properties with Restrictions Ending 2025 or Sooner (Washoe County)

Project Name	Last Bldg Placed in Service	Restricted Period	Approx. End Year	# of Units	Senior?
Manhattan Place Apts 930 Manhattan St, Reno	12/31/1992	30	2023	10	no
Sierra West Apts 1380 Riley St, Reno	12/9/1992	30	2023	26	no
Skyline Apts 1570 Sky Valley Dr, Reno	10/28/1994	30	2024	100	no
Skyview Apts 1590 Sky Valley Dr, Reno	10/28/1994	30	2024	100	no

Post 15-year Tax Credit compliance period

Section 42 of the Internal Revenue Code, however, created a provision that housing credit agencies, such as the NHD, respond to requests for a qualified buyer (or a qualified contract) for tax credit developments with expiring compliance periods. A qualified contract is an agreement to purchase property for a qualified contract price (QCP), pursuant to IRS regulations, and to continue to operate it as a qualified low income property. A request for the presentation of a QC may occur any time after year 14 of the compliance period. Section 42 provides that the extended use period (post-15 years) shall terminate if a housing credit agency is unable to present a qualified contract to a taxpayer who has requested such a contract.

State Housing Credit Agencies sometimes encounter difficulty in finding a qualified contract for affordable housing projects. One reason is the QC process in which a tax credit property must be priced at a level that will return some profit for the tax credit investor, which is a formula determined by the IRS. Since the price will be inflated and the units have rent restrictions, there will be a gap between the sales price and the ability of the property to absorb that higher price through the existing rents. The gap is so high in some properties that it is infeasible for most buyers to purchase unless the units can be converted to a market rate level through the QCP.

In an example such as this where the project is sold and the units do convert to market rate before the end of the 30 year affordability period, existing tenants with leases are grandfathered in for the first three years and will be able to maintain the rent restrictions. Any other unit may be turned market rate upon completion of the QC. Table 2 on the next page shows the Tax Credit projects that are currently eligible to apply for a QC in Washoe County. At this time, however, only the City Center Apartments and Courtyard Centre Apartments in Reno are currently requesting a QC with the NHD. The City Center and Courtyard Centre apartments <u>do not have</u> any HOME units or funding, thus neither receive any property tax exemption.

Table 2. Nevada Post-15 LIHTC Properties

Project Name	Last Bldg Placed in Service	Extended Period Start Date	Restricted Period	Approx. End Year	# of Units	Senior?
Austin Crest	5/30/1999	2014	30	2029	268	yes
Boulder Creek	7/20/1999	2015	30	2030	250	no
Vintage Hills Sr Apts	10/15/1999	2015	30	2030	201	yes
City Center Apts	**10/23/2001**	**2016**	**30**	**2031**	**258**	**no**
Courtyard Centre	**5/1/2000**	**2016**	**30**	**2031**	**240**	**no**
Diamond Creek Apts	6/1/2000	2016	30	2031	288	no
Citivista Sr Apts	1/3/2002	2017	30	2032	152	yes
Parkside Garden Apts	6/5/2003	2018	30	2033	288	no
Silver Terrace Apts	6/30/2003	2018	30	2033	126	no

Requesting a QC is a difficult process that involves substantial time and energy on the part of the owner, who are encouraged to consider other options with the Nevada Housing Division in order to make compliance easier to achieve while continuing to serve the people for whom the program was intended. The NHD is now placing some restrictions on the ability of owners to request the QCP as they select new projects, and many affordable housing developers in Nevada have chosen to waive the right to a QC and have committed to 30 years or more of operation as low income rental housing.

HOME affordability period

HOME units must have a minimum affordability period that ranges from five (5) to 20 years, depending upon the amount of investment and the nature of the activity. When combined with LIHTC financing, the affordability period is often matched and may be as long as 50 years. There is no Qualified Contract process for HOME units. If there are changes to the tax credit units in a project with combined financing, it will not affect the affordability period of the HOME units. If a HOME project does not meet the Federal minimum affordability period, then the participating jurisdiction may be responsible for repaying the HOME funds back to HUD, which is a worst-case scenario that staff works hard to avoid.

There are, however, only 18 HOME units that will naturally expire by the year 2025. They are located at the Southwest Village Apartments (11 HOME units) at 3295 South Virginia Street, and at the Skyline and Skyview Apartments (7 HOME units) both at 1570 Sky Valley Drive in Reno. Due to the relatively low number of HOME units that are expected to turn market-rate, this is not as concerning as the tax credit units.

Unlike LIHTC projects, the City of Reno and the Washoe County HOME Consortium has a lot of leverage to extend the affordability period of these units, with voluntary owner participation. The major incentive for HOME funds is the property tax exemption, which only applies if Federal low-income funds are used, per the NRS Chapter 319. For large properties such as City Center and Courtyard Center, the property tax exemption could save several hundred thousand dollars a year.

<u>What can be done to maintain the affordability of Tax Credit properties?</u>
Staff from the City of Reno and the Nevada Housing Division have met several times to discuss the QC sale of the of the City Center and Courtyard Centre Apartments and have brainstormed possible ways to preserve the affordability provisions of these and other units in Nevada, with the voluntary participation of the owner of these projects. A potential solution for City Center and Courtyard Centre is to have the owner apply for HOME funds, which could be loaned or granted to the projects in return for rehabilitation work and several designated HOME units. The presence of HOME funding will then allow the properties to have at least a partial property tax exemption, thereby increasing the cash flow of the project and making the rent restrictions more manageable.

There is no simple fix for maintaining affordability of LIHTC projects, and any action taken for one project may not work somewhere else. There is also limited funding from the State of Nevada and the Washoe County HOME Consortium to support every expiring tax credit property. Staff from Reno and the NHD will continue to monitor the potential sale of the City Center and Courtyard Centre Apartments, and will brief the TRC further on December 11.

<u>Rents are increasing...everywhere</u>
Even for low income designated units such as LIHTC and HOME, rents at these units are still increasing. That is because HUD calculates new maximum rent levels every year based on local economic factors such as the change in area income levels, and the state of the economy. When overall incomes rise for an area, as it did in Washoe County over the past several years, owners of assisted housing units are permitted to raise rents when leases renew or as units transition to new renters. In April of 2018, new rent schedules were released by HUD in which rents increased by **<u>almost 17 percent</u>** from the previous year. Tenants must be given 45-day notice of any rent increase, notwithstanding any other terms of the lease.

Tax credit units are restricted to households earning at or below 60 percent of the area's median gross income (AMGI), and rents are based on the number of bedrooms per unit, or unit type. The following figures describe the housing situation for several household types with rents priced at the 60 percent income level:

<u>One person household</u>
- Max income = $30,900
- Max rent = $772 for an efficiency unit, $827 for a one-bedroom unit.

<u>Three person household</u>
- Max income = $39,720
- Max rent = $993 for a two-bedroom unit.

Recommendation

Staff is only recommending that the TRC be prepared for the possibility that certain tax credit projects could apply for HOME funding in the future. Since there are a number of outside factors affecting the underwriting and potential sale of both the City Center and Courtyard Centre Apartments, staff is recommending a wait-and-see approach at this time to determine whether the investment of HOME funds would be feasible for either project.

As a reminder, the TRC can reserve funds from one funding cycle to a later date, and does have the ability through the Intergovernmental Agreement to conduct multiple funding rounds. Since the timing of the QC sale of these properties is not within the control of the Washoe County HOME Consortium, the TRC may need to be flexible to accommodate the funding of either of these projects, if necessary.ese options may be necessary if the TRC is interested in awarding HOME funds to these projects.